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Re-pricing in Grocery Stores

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The practice of stamping one price on top of another price has traditionally ranked high on the list of complaints consumers have about supermarkets. Largely due to rapidly rising food prices, opposition to re-pricing ran highest during the 1970's, and numerous attempts were made to legislate re-pricing bans at the national, State, and local levels.

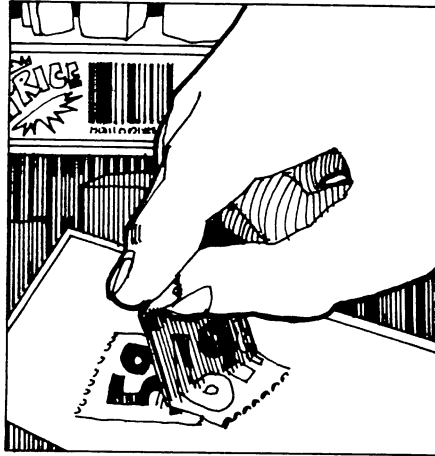
Grocers are not unanimous in their opinion of re-pricing. Some contend that the benefits derived are not worthwhile, considering the amount of consumer dissatisfaction that it generates. Others, probably most, say that after a sale they must re-price the remaining stock at the presale level, and many also want to raise prices as soon as they have to pay more for the merchandise they purchase.

The Alternatives

Another important reason why re-pricing is such a widespread practice is that the alternatives are not always satisfactory. Grocers could have different prices on different packages of a product on the shelf at one time, or they could allow all packages of a product to sell out before re-stocking at a higher price.

The advent of Universal Product Code (UPC) scanners now makes possible a third option: to end price marking of packages entirely and to rely instead on price tags affixed to the shelves. UPC scanners read a bar code on each package which identifies the product so that a computer can search its memory for the price which is then printed on the cash register tape. A store operator only has to enter the appropriate prices in the computer's memory. This option is not available in Connecticut, Rhode Island, Michigan, Minnesota, New York, and Massachusetts where price marking is required by law.

Many supermarket operators would prefer to end all price marking because this would simplify operations and reduce costs while reducing consumers' complaints about



re-pricing. But to do this supermarkets have to install UPC scanners, which usually cost more than \$100,000 per supermarket. About 3,500 of the Nation's 25,000 or so supermarkets had scanners in April 1981, and over 100 stores are installing them each month.

The alternative of allowing shelves to become depleted before re-stocking causes so many problems it is unlikely to be given serious consideration. At any given time, many products would be out of stock and clerks would need to check the aisles continually to see what items needed re-stocking. A large storeroom would be needed to hold reserve merchandise and it would be in constant disarray as clerks moved cases around to find products required out front. Store operators prefer to do most re-stocking at night or when customer traffic is light to minimize disruption. It also is much more efficient to re-stock an entire aisle at one time because cases often are stacked on pallets or carts in the same sequence as they are displayed along the aisle.

Different prices on different packages of the same product, though much less troublesome than the other options, also pose problems. When consumers know there may be two or more prices, they often will paw through the merchandise looking for a package with a lower price. This can create an unattractive store appearance, requiring clerks to fix displays continually, a task which adds to costs. Store operators contend that checkout clerks make more mis-

takes because they assume all packages of a product have the same price. And having two or more prices for the same product does not eliminate complaints; rather, it results in a new set of complaints.

Many stores now provide unit-price information—a tag is put on the shelf telling the price per ounce, pound, count, or other appropriate physical measure. Unit pricing is required by law in some places. Re-pricing restrictions and unit pricing may be incompatible—if two packages of the same product have different prices, must the stores post two unit prices?

Stores that use UPC scanners face a special problem if re-pricing is banned. They cannot have two prices for different packages of a product unless the computer is instructed to sell a specified number of packages at the old price before switching to the new price. Even then, if prices are marked on the packages, there is no assurance that customers will always pick up the packages with the lower price first. Those who are charged the lower price for packages marked with the higher price are not likely to complain, but those who later pick up a package marked with the lower price and are charged the higher price probably will.

When store operators with UPC scanners are forbidden to re-price merchandise, they usually either destroy the UPC symbol on each package to force checkout clerks to manually enter the price marked on the package, or they prepare new UPC labels in the store to replace those already on the packages. Alternatively, they could end price marking altogether if permitted by law, or allow shelf stock to become depleted before re-stocking. Adoption of UPC scanners probably would be sharply curtailed in areas where price marking is required and re-pricing is banned.

Experience with Repricing Bans

When local governments have tried to ban re-pricing, problems have cropped up. Dade County, Fla., passed an ordinance

Productivity in Grocery Warehouses: Actual vs. Potential

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banning re-pricing in grocery stores but it was declared unconstitutional before it could be implemented in 1978. The U.S. District Court, Southern District of Florida, ruled that the ordinance was vague, arbitrary, capricious, and discriminatory. Nassau County, N.Y., enacted an ordinance which was in effect for 1 year but was not renewed because of Dade County's court ruling and because of enforcement problems. For example, it was not possible to determine when a price had been changed if the old price mark was first removed. The enforcement agency (the county's department of consumer affairs) also found some instances where consumers who were angry with a store moved price stickers among products and claimed that the store had violated the law.

Neighboring Suffolk County, N.Y. has a re-pricing ban now in effect for food stores. The law initially did not allow re-pricing of sale items at the presale level but was amended because the stores reacted by putting fewer products on sale. Consistent with Nassau County's experience, Suffolk County also encountered numerous enforcement problems. For example, the county must prove that a package with two price markings was not formerly on sale at the lower price. At this time, the Suffolk County law is being enforced only when complaints are received, and the county is reported to be considering an end to the ban.

Enforcement officials in both Suffolk and Nassau Counties question whether consumers actually benefit from re-pricing bans. They cite a 1975 study at Rutgers University that found that additional operating costs and a direct loss of revenue due to not re-pricing amounted to about 0.5 percent of sales. The supermarkets raised prices throughout the store to offset these additional expenses and lost revenues. That portion of the price increase that was used to offset the revenue losses is a transfer from one set of consumers to another with no net loss to consumers as a whole. However, that portion of the price increase that was used to offset the higher operating expenses does represent a net increase in consumer expenditures, adding about 0.25 percent to their food bills.

New York also has a unit-pricing requirement which, when combined with the re-pricing restriction, contributed to consumer confusion. The State law stipulates that unit-price information must be displayed for each price at which an item is offered for sale. Alternately, a store may display unit-price information only for the highest price at which an item is offered for sale, provided that a statement is added indicating that packages are also available at a lower price and that the unit price information is based upon the highest selling price.

Nevertheless, based on their experience with re-pricing restrictions, enforcement officials have found that many consumers are very sensitive about food prices; they get upset when prices are changed, when different prices are marked on different packages of the same product, and when price marking is eliminated entirely. The Rutgers study also found that although a no-repricing program increased overall food costs, it contributed to consumer confidence in the accuracy of price marking and had a high level of acceptance by consumers.

In summary, while many consumers want re-pricing to end and believe it is easy for supermarkets to do so, the retailers have not found an easy solution. However, the re-pricing issue is likely to diminish as the use of UPC scanners increases. Several large supermarket firms have already indicated a strong desire to eliminate price marking once scanners are installed. ■

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The modern grocery warehouse is more than a simple storage facility. For the chain store and the large independent retailer the warehouse has become the place where basic decisions are made about product lines, pricing, and promotional activities. The warehouse also provides services such as accounting, employee training, advertising, and financial assistance.

The prices and selection of grocery items available to consumers depend partly on the efficiency with which warehouses perform all these functions. However, labor productivity in grocery warehouses has improved little since the late 1960's. Some industry observers argue that this is because of increased product lines, reduced employee effort, restrictive union work rules, new functions at the warehouse, Government regulations, and slowed development of new technologies.

A 1977 USDA-sponsored study explored whether food wholesalers are doing all they can with current technology and found that labor productivity could be increased at least 25 percent in many warehouses by adopting more efficient practices. If these changes had been adopted industry-wide in 1980, \$630 million could have been saved.

USDA's study specifically examined the gap between the actual and potential productivity of labor in nine dry grocery warehouses. These warehouses were operated by food chains, voluntary wholesalers (who franchise independent retailers), and cooperative wholesalers (which are owned collectively by retailers). A small, medium, and large warehouse was studied for each type of ownership.

In addition to comparing actual and potential productivity, the study considered the applicability of newer, large-scale equipment for selecting the items ordered by the stores. The study only examined productivity factors that could be controlled by warehouse managers and, therefore, excluded evaluation of possible effects of factors such as union work rules and Government regulations.